

Q4 2006 Analyst and Investor Briefing

March 15, 2007

- **Sales** increased by 25.1% to €7,970m (Q4'05: €6,371m); Volume +5%, price +1%, currency -4%, portfolio +23%. Portfolio and currency adjusted sales increased +5.8% (Schering €1,528m).
- **Reported EBIT** up by 59.7% to €206m (Q4'05: €129m), Schering -€122m.
- **Net Special Items** of -€416m include:
HealthCare: Total -€274m, mainly due to Schering integration (-€145m), Schering PPA (-€47m) and a write-down due to Alfimeprase (-€41m)
CropScience: Total -€42m, mainly related to efficiency projects,
MaterialScience: Total -€56m, mainly due to restructuring,
Reconciliation: Total -€44m, mainly from restructuring of Bayer Industry Services.
- **Underlying EBIT** up 12.5% to €622m (Q4'05: €553m), driven by Pharmaceuticals and Consumer Health (Schering: €94m).
- **Reported EBITDA** at €846m up by 57.0% (Q4'05: €539m), thereof Schering €40m.
- **Underlying EBITDA** at €1,258m up 34.3% (Q4'05: €937m). Schering: €352m
- **Non-operating result** up by 53.9% to -€77m (Q4'05: -€167m) including net interest expenses of -€242m (Q4'05: -€64m). Disposal gain of 49.9% stake in GE Bayer Silicones (GEBS) contributed €236m.
- **Tax income** of €130m, mainly resulting from one-time recognition of deferred tax assets on loss carryforwards (€203m).
- **Net income** after minorities (incl. discontinued operations) up by €265m to €311m (Q4'05: €46m); **EPS** accordingly at €0.41 (Q4'05: €0.06).
- **Core EPS** at €0.74 (Q4'05: €0.46). Details on Core EPS see page 5.
- **Gross cash flow** up by 73.3% to €761m (Q4'05: €439m). Delta **Working Capital** €732m. **Net cash flow (cont.)** at €1,493m (Q4'05: €1,182m). **Investments** up by 34.0% to €792m. **Operating free cash flow** at €786m (Q4'05: €718m). Cash-in from disposal of GEBS and prepayment Diagnostics €826m.
- **Net debt** (total) qoq down by €1,482 to €17,539m and up by €12,045m compared to December 31, 2005.

€million	Q4 2005						Q4 2006					
	Sales	EBIT rep.	Special Items	EBIT underlying	EBITDA rep.	EBITDA underlying	Sales	EBIT Rep.	Special Items	EBIT underlying	EBITDA rep.	EBITDA underlying
HealthCare	2,157	186	(90)	276	269	339	3,782	187	(274)	461	469	796
Pharma	1,098	92	(52)	144	135	167	2,698	3	(260)	263	250	563
Cons. Health	1,059	94	(38)	132	134	172	1,084	184	(14)	198	219	233
CropScience	1,377	44	(14)	58	194	202	1,302	(42)	(42)	0	107	142
CP	1,160	47	(7)	54	173	175	1,090	(53)	(42)	(11)	76	111
ES/BS	217	(3)	(7)	4	21	27	212	11	(0)	11	31	31
MaterialSc.	2,448	215	(65)	280	339	404	2,532	131	(56)	187	288	307
Materials	758	105	0	105	148	148	749	18	0	18	62	62
Systems	1,690	110	(65)	175	191	256	1,783	113	(56)	169	226	245
Reconc.	389	(316)	(255)	(61)	(263)	(8)	354	(70)	(44)	(26)	(18)	13
Group	6,371	129	(424)	553	539	937	7,970	206	(416)	622	846	1,258



Outlook Summary

(This summary does not contain the full outlook statement. We therefore recommend to carefully check against the forecast given in the Annual Report 2006 on page 96f.)

2007 Sales and earnings outlook

Group:

Plan to increase **sales** and **underlying EBITDA** by >10%, slightly improve **underlying EBITDA-margin**.

Special charges for 2007: €900-950m including some €200m in write-downs (Schering integration €650-700m; Bayer CropScience restructuring €150-200m).

CapEx planned at €1.7bn including €1.6bn for property, plant and equipment.

D&A anticipated roughly at €2.5bn with depreciation of property, plant and equipment at €1.2bn.

R&D budget at €2.8bn

HealthCare:

Intention to grow with or faster than market in all divisions. Drive underlying EBITDA-margin towards 24%.

CropScience:

Plan to grow slightly faster than market. Intention to increase underlying EBITDA-margin towards 22%.

MaterialScience:

Plan further volume increases in 2007 and sustain a good, value-creating earnings level. Intend to achieve significantly higher underlying EBITDA-margin in Q1'07 versus Q4'06.

Earnings outlook beyond 2007

Group:

Target 22% underlying EBITDA-margin by 2009.

HealthCare:

Target 27% underlying EBITDA-margin by 2009 driven by business expansion and synergies from integration of Schering.

CropScience:

Target 25% underlying EBITDA-margin by 2009 in a normal market environment.

MaterialScience

We believe, MaterialScience can create value even in a difficult market environment by earning an attractive premium over its capital and asset reproduction costs. Underlying EBITDA margin >18% under favorable market conditions.

Q4'06 HealthCare

Pharmaceuticals sales up 145.7% to €2,698m with Schering contributing €1,528m. *Primary Care*: Adalat at €174m (+0.0%). US Government order (€31m) drove Cipro sales up 16.1% to €137m. Avelox sales down 16.8% to €99m driven by weak flu season in Europe; Q4'05 effected by launch in Japan. Levitra mainly driven by US (€86m, +22.9%). *Hematology/Cardiology*: Trasylol down 39.4% to €40m. Kogenate (€205m, +15.8%) showed best quarter ever, mainly driven by EU business. Rx Aspirin Cardio up 21.7% (€56m). *Oncology*: Nexavar contributing €49m. *Women's Health*: Yasmin sales (including Yaz and Yasminelle) increased by pro-forma 38.2% to €228m. Yaz as fastest growing oral contraceptive in the US. *Special Therapeutics*: Betaferon up (pro-forma) 10.0% to €264m due to strong growth in all major markets.

Underlying EBIT up 82.6% to €263m (Schering: €94m). Underlying EBITDA at €563m, up 237.1% (Schering €352m). Sequentially higher marketing and R&D costs (approx. €200m qoq).

Please see pages 4ff. for more information on accounting issues related to Schering.

Consumer Health sales advanced by 2.4% to €1,084m (Fx adj. +7.0%). Aleve (€56m, +3.7%). Favorable performance of Canesten (€40m, +14.3%). Continuing growth of Bepanthen family (€30m, +7.1%).

Weak flu season in Germany and weakness in Brazil caused fall in Aspirin OTC by 8.5% to



€118m. Ascensia +9.8% (€212m) driven by US and EU business.

Underlying EBIT up 50.0% to €198m due to top-line growth and improved cost structures. Underlying EBITDA at €233m (+35.5%)

Q4'06 CropScience

Crop Protection sales down by 6.0% to €1,090m (Fx adj. -1.4%). Sales of **Insecticides** decreased by 8.6% to €287m due to divestments of older products and unfavorable Fx development. **Fungicides** sales slightly up by 2.6% to €318m, due to good performance of Proline and Fandango in Europe. Sales in the **Herbicides** segment (€379m) decreased by 11.0%, mainly due to price declines in North and Latin America. **Seed Treatment** down 3.6% but Fx adjusted flat to €106m with excellent performance of Poncho compensating for sales shortfall due to divested products.

Underlying EBIT in Crop Protection down by €65m to -€11m due to unfavorable exchange rates and price reductions (mainly Brazil). Underlying EBITDA down 36.6% to €111m.

Environmental Science/BioScience sales down by 2.3% to €212m. Environmental Science flat (€159m; +0.0%, currency adjusted +5.0%) with good performance of Professional Products. BioScience with lower sales at €53m (-8.6%, Fx adj. flat).

Underlying EBIT up by €7m to €11m due to increased business in the Professional Products segment. Underlying EBITDA at €31m (+14.8%).

Q4'06 MaterialScience

Materials segment sales slightly decreased by 1.1% to €750m with Polycarbonates sales down 1.5% to €700m. Robust volume growth compensated for declining prices, while Fx impact was negative.

Underlying EBIT down €87m to €18m, mainly due to considerably lower selling prices and higher raw material costs. Underlying EBITDA at €62m (-58.1%).

Systems segment sales were up 5.5% to €1,783m (Fx adj. +9.4%), with Polyurethanes up 4.5% to €1,283m. MDI and TDI showed favorable volume growth. MDI prices down yoy, but stable qoq. Strong TDI price enhancements yoy due to tight markets. Lower Polyols volumes balanced by higher prices. CAS up by 5.2% to €354m due to continuing high demand and price increases.

Underlying EBIT down by 3.4% to €169m, partly due to higher raw material prices. Underlying EBITDA at €245m (-4.3%).

Overall, fourth-quarter earnings both at Materials and Systems were also held back by a temporary loss of production in Krefeld-Uerdingen, Germany. In addition, the expansion of our sales organization in Asia and expenses for the start-up of our production facilities in china led to an increase in costs.



March 15, 2007

Impact of the Acquisition of Schering on Q4/FY 2006 Accounting

1. Indicative impact of the additional amortization charge and work-down of inventory step-up on EBIT and EBITDA

The additional charge from the amortization of intangible and tangible assets related to the acquisition of Schering is expected to be around 0.9 to 1.0 billion euros per annum. This will be the average run-rate of acquisition related additional amortization charges for the next few years.

Approximately 0.9 billion euros step-up of inventories will be worked down by the end of 2008 reflecting the lifespan of these assets. Charges of 429 million euros have been taken in 2006. As a rough guidance, additional charges of 220 million euros in 2007 and 200 million euros in 2008 are assumed. These charges will be a component of special items in the EBIT as well as in the EBITDA line.

The major part of the intangible assets identified during the purchase price allocation, such as patents, production know-how and other product-related assets is linked to manufacturing. Thus, amortization of these assets is part of the manufacturing cost and hence is capitalized in inventories until inventories are sold.

345 million euros of the additional amortization charge associated with the acquisition of Schering have been capitalized in 2006, reducing the P&L effect of the amortization on the EBIT level from -419 million euros to -74 million euros. Adding the -429 million euros work-down of the inventory step-up and €-48 million amortization of trademarks led to overall charges of 551 million euros in the reported EBIT for 2006. The capitalized amortization charge of 345 million euros was treated as a positive special item, partly compensating the charge from the work-down of the inventory step-up. As a result, the net one-time charge related to the additional amortization and the work-down of inventory step-up was 84 million euros in 2006. Hence, the effect on the underlying EBIT line was -467 million euros in 2006.

Accordingly, for 2007, the reported EBIT impact should be approximately 895 million euros, while the impact on the underlying EBIT is estimated to be about 830 million euros. Further details are given in the table below. The EBITDA line is only impacted by the work-down of the inventory step-up, all amortization related charges are excluded. Purchase price accounting will have no impact on the underlying EBITDA.



Acquisition of Schering - Indicative Impact of Additional Amortization*



In € million, figures rounded	Q4 2006a	FY 2006a	FY 2007e	Q1 2007e	FY 2008e	FY 2009e
Work-down of inventory step-up	-154	-429	-220	-60	-200	0
Amortization of intangibles & tangibles, excl. trademarks	-174	-419	-740	-190	-900	-900
> Of which capitalized as part of inventory	115	345	500	140	600	600
Expensed amortization capitalized in previous period			-345	-90	-500	-600
Amortization of trademarks	-34	-48	-90	-20	-90	-90
Amortization	-93	-122	-675	-160	-890	-990
EBIT impact	-247	-551	-895	-220	-1,090	-990
EBIT special items	-47 ¹⁾	-84	-65	-10	-100	0
Underlying EBIT impact	-200	-467	-830	-210	-990	-990
EBITDA impact	-154	-429	-220	-60	-200	0
EBITDA special items	-154	-429	-220	-60	-200	0
Underlying EBITDA impact	0	0	0	0	0	0

1) Includes additional -€8m from previous quarters

* Status: March 15, 2007

All figures are indicative as the purchase price allocation is still provisional. Assumptions subject to change. Figures may change during the finalization of the process.

2. Q4 and FY'06 Core EPS Calculation

Q4 and FY'06 – Core EPS Calculation



In € million	Q4 2005	Q4 2006	FY 2005	FY 2006
EBIT	129	206	2,514	2,762
+ Amortization and write-downs of intangible assets	135	267	550	734
+ Write-downs of property, plants and equipment	5	78	55	107
± Special items (other than write-downs)	398	412	480	909
Core EBIT	667	963	3,599	4,512
± Non-operating result	(167)	(77)	(602)	(782)
± Extraordinary income/loss from investments in affiliated companies	-	(236)	-	(236)
± Income taxes	24	130	(538)	(454)
± Tax adjustments	(192)	(180)	(386)	(531)
± Earnings after taxes attributable to minority interest	4	(12)	2	(12)
Core net income (continuing)	336	588	2,075	2,497
+ Financing expenses for the mandatory convertible bond, net of taxes	-	25	-	72
Adjusted core net income	336	613	2,075	2,569
Weighted average number of issued ordinary shares	730.34	764.34	730.34	746.46
Potential shares to be issued upon conversion of the mandatory convertible bond	-	59.52	-	45.30
Adjusted weighted average total number of issued and potential ordinary shares	730.34	823.87	730.34	791.76
Core earnings per share from continuing operations (€)	0.46	0.74	2.84	3.24

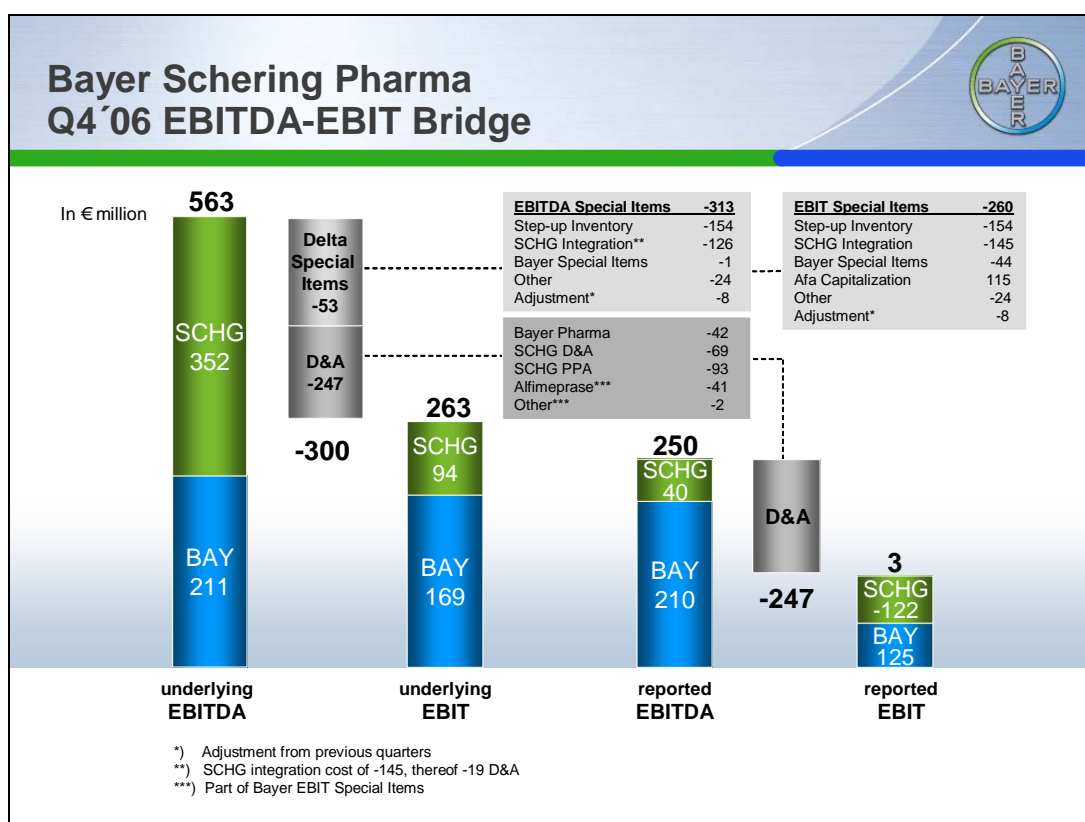


3. Q4'06 reconciliation of underlying/reported EBITDA to underlying/reported EBIT for Bayer Schering Pharma

For the reconciliation of underlying EBITDA to underlying EBIT as well as for reported EBITDA to reported EBIT, D&A charges and the difference between special items on the EBIT level and special items on the EBITDA level have to be taken into account.

D&A charges in Q4'06 amount to 247 million euros, including 43 million euros of write-downs (mainly Alfimeprase) and 93 million euros additional amortization associated with the acquisition of Schering. Special charges on the EBIT level amount to 260 million euros, including a positive 115 million from the capitalized amortization charge.

The special items on the EBITDA level do not include any D&A related charges, i.e. the 115 million euros gain from the capitalization of additional amortization, 43 million euros write-downs and 19 million euros write-downs associated with the Schering integration charges. Hence, EBITDA special charges amount to 313 million euros.





4. Q4'06 performance of Bayer Schering Pharma

The following chart summarizes the Q4'06 performance of Bayer Schering Pharma. Separate figures for the former Bayer Pharma business and the acquired Schering business are provided.

Q4'06 Performance of Bayer Schering Pharma						
In € million	Q4'05		Q4'06			
	Bayer Pharma	Schering	Bayer Pharma	%yoy	Schering	BSP
Sales	1,098	•	1,170	6.6*	1,528	2,698
EBITDA	135	•	210	55.8	40	250
Special Items	(32)	•	(1)	•	(312)	(313)
▪ Work-down of inventory step-up	0	•	0	•	(154)	(154)
▪ Capitalization of amortization as part of inventory	0	•	0	•	0	0
▪ Schering integration	0	•	0	•	(126)	(126)
▪ Other	(32)	•	(1)	•	(32)	(33)
Underlying EBITDA	167	•	211	26.3	352	563
EBIT	92	•	125	35.9	(122)	3
Special Items	(52)	•	(44)	•	(216)	(260)
▪ Work-down of inventory step-up	0	•	0	•	(154)	(154)
▪ Capitalization of amortization as part of inventory	0	•	0	•	115	115
▪ Schering integration	0	•	0	•	(145)	(145)
▪ Other	(52)	•	(44)	•	(32)	(76)
Underlying EBIT	144	•	169	17.4	94	263

*) + 9.7% sales growth if adjusted for cessation of plasma product distribution in Canada (-€35m)

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Forward-looking statements

This announcement contains forward-looking statements based on current assumptions and forecasts made by Bayer Group management. Various known and unknown risks, uncertainties and other factors could lead to material differences between the actual future results, financial situation, development or performance of the company and the estimates given here. These factors include those discussed in our public reports filed with the Frankfurt Stock Exchange and with the U.S. Securities and Exchange Commission (including our Form 20-F). The company assumes no liability whatsoever to update these forward-looking statements or to conform them to future events or developments.